



**CITY OF WELLSTON, OHIO**

**SINGLE AUDIT**

**For the Year Ended December 31, 2015**

**J.L. UHRIG**  
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS







# Dave Yost • Auditor of State

City Council  
City of Wellston  
203 East Broadway Street  
Wellston, Ohio 45692

We have reviewed the *Independent Auditor's Report* of the City of Wellston, Jackson County, prepared by J.L. Uhrig and Associates, Inc., for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Wellston is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

October 27, 2016

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**JACKSON COUNTY, OHIO**  
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## Independent Auditor's Report

City of Wellston  
Jackson County  
20 East Broadway  
Wellston, Ohio 45692

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Wellston, Jackson County, Ohio, (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the designing, implementing, and maintaining internal control relevant to the preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement, whether due to fraud or error. In assessing those risk, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellston, Jackson County as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund, Fire Levy Fund and Recreation Fund thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis on pages 4-14 and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquires of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquires, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated August 23, 2016 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

***J. L. Uhrig and Associates, Inc.***

J. L. UHRIG AND ASSOCIATES, INC.  
Chillicothe, Ohio

August 23, 2016

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**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2015*  
*Unaudited*

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The discussion and analysis of the City of Wellston's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2015. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2015 are as follows:

- The City's total net position increased by 1.2 percent, or \$176,555, from the total net position at the beginning of the year.
- At the end of the current year, the City's governmental activities reported total net position of \$6,169,983, an increase of \$26,564 from the prior year. Unrestricted net position was (\$429,203).
- At the end of the current year, unassigned fund balance for the General Fund was \$838,215, which represents a 30 percent increase from the prior year.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Wellston as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

***Reporting the City of Wellston as a Whole***

**Statement of Net Position and Statement of Activities**

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2015?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net position and changes in net positions. This change in net position is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, nonfinancial information such as the condition of City capital assets will also need to be evaluated.

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
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In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities:

Governmental Activities – Most of the City's services are reported here including police, administration, and all departments with the exception of our Water, Sewer, and Garbage Funds.

Business-Type Activities – Water and sewer services have charges based upon the amount of usage. The City historically has not charged fees to recoup the cost of the entire operations of our Water and Sewer Treatment Plants as well as all capital expenses associated with the facilities. Garbage collection services have charges based upon set rates. The City attempts to set fees that cover the costs of providing the service.

***Reporting the City of Wellston's Most Significant Funds***

*Fund Financial Statements*

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Fund financial reports provide detailed information about the City's major funds. Based on the restriction on the use of monies, the City has established many funds that account for the multitude of services provided to its residents. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the General Fund, as well as the Fire Levy and Recreation Special Revenue Funds, and the Permanent Investment Capital Projects Fund.

***Governmental Funds*** Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as balances of spendable resources available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the City's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a number of individual governmental funds. Information for the major funds, identified earlier, is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single aggregated presentation.

**City of Wellston, Ohio**  
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***Enterprise Funds*** **The** City uses enterprise funds to account for its water, sewer, and garbage operations. For water and sewer operations, the City charges a fee to customers, based upon the amount of usage, in an attempt to recover the costs of the services provided. For garbage operations, the City charges a flat monthly fee.

***Fiduciary Fund*** The City accounts for resources held for the benefit of parties outside the government as a fiduciary fund. This fund is not reflected in the government-wide financial statements because the resources of this fund are not available to support the City's own programs. The City uses accrual accounting for fiduciary funds, the same as that of the proprietary funds.

**The City of Wellston as a Whole**

Recall that the Statement of Net Position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2015 compared to 2014.

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
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**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2015	Restated 2014	2015	Restated 2014	2015	Restated 2014
<b>Assets</b>						
Current and Other Assets	\$6,144,752	\$5,958,185	\$2,608,122	\$2,357,635	\$8,752,874	\$8,315,820
Capital Assets	2,348,098	2,416,265	9,901,473	10,328,226	12,249,571	12,744,491
<i>Total Assets</i>	<u>8,492,850</u>	<u>8,374,450</u>	<u>12,509,595</u>	<u>12,685,861</u>	<u>21,002,445</u>	<u>21,060,311</u>
<b>Deferred Outflows of Resources</b>						
Pension	182,595	121,547	139,851	105,337	322,446	226,884
<b>Liabilities</b>						
Current and Other Liabilities	256,283	160,996	429,502	447,085	685,785	608,081
Long-term Liabilities:						0
Due Within One Year	106,073	83,373	284,786	318,803	390,859	402,176
Due in More than One Year:						0
Net Pension Liability	1,357,808	1,287,260	863,605	844,099	2,221,413	2,131,359
Other Amounts	262,923	307,900	2,831,940	3,106,761	3,094,863	3,414,661
<i>Total Liabilities</i>	<u>1,983,087</u>	<u>1,839,529</u>	<u>4,409,833</u>	<u>4,716,748</u>	<u>6,392,920</u>	<u>6,556,277</u>
<b>Deferred Inflows of Resources</b>						
Property Taxes	517,317	513,049	0	0	517,317	513,049
Pension	5,058	0	15,172	0	20,230	0
<i>Total Deferred Inflows of Resources</i>	<u>522,375</u>	<u>513,049</u>	<u>15,172</u>	<u>0</u>	<u>537,547</u>	<u>513,049</u>
<b>Net Position</b>						
Net Investment in Capital Assets	2,084,117	2,123,567	6,896,466	7,008,639	8,980,583	9,132,206
Restricted for:						
Street Construction	784,168	665,366	0	0	784,168	665,366
Police Protection	4,536	14,787	0	0	4,536	14,787
Fire Protection	156,946	147,696	0	0	156,946	147,696
Community Development	819,072	963,220	0	0	819,072	963,220
Capital Projects	2,477,515	2,490,140	0	0	2,477,515	2,490,140
Cemetery	21,564	0	0	0	21,564	0
Cemetery Perpetual Care	251,268	255,166	0	0	251,268	255,166
Unrestricted	(429,203)	(516,523)	1,327,975	1,065,811	898,772	549,288
<i>Total Net Position</i>	<u>\$6,169,983</u>	<u>\$6,143,419</u>	<u>\$8,224,441</u>	<u>\$8,074,450</u>	<u>\$14,394,424</u>	<u>\$14,217,869</u>

During 2015, the City adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$7,309,132 to \$6,143,419 for governmental activities and from \$8,813,212 to \$8,074,450 for business-type activities.



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Total governmental activities assets increased \$118,400. Governmental activities' capital assets decreased \$68,167 primarily due to depreciation offset by additions. Current and other assets increased \$186,567 primarily due to an increase in cash and cash equivalents. There was an increase in total liabilities for governmental activities in the amount of \$143,558. This was primarily due to an increase in the net pension liability and an increase in contracts payable. The \$426,753 decrease in capital assets for business-type activities is due to depreciation, offset by additions in the Water and Sewer Funds. Business-type activities' current assets increased \$250,487, primarily due to an increase in accounts receivable. Current and other liabilities decreased \$17,583, primarily due to a decrease in contracts payable and intergovernmental payable, offset by an increase in accounts payable.

Table 2 shows the changes in net position for the year ended December 31, 2015, and comparisons to 2014.

**Table 2**  
**Changes in Net Position**

	Governmental Activities 2015	Business- Type Activities 2015	Total 2015	Governmental Activities 2014	Business- Type Activities 2014	Total 2014
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$179,718	\$3,191,161	\$3,370,879	\$150,194	\$3,004,516	\$3,154,710
Operating Grants and Contributions	598,968	0	598,968	711,030	0	711,030
Capital Grants and Contributions	162,140	0	162,140	903,635	0	903,635
<i>Total Program Revenues</i>	<u>940,826</u>	<u>3,191,161</u>	<u>4,131,987</u>	<u>1,764,859</u>	<u>3,004,516</u>	<u>4,769,375</u>
General Revenues:						
Property Taxes	572,702	0	572,702	489,475	0	489,475
Income Taxes	1,269,590	0	1,269,590	1,137,147	0	1,137,147
Grants and Entitlements	120,287	0	120,287	209,938	0	209,938
Investment Earnings	63,663	0	63,663	67,593	0	67,593
Miscellaneous	52,999	60,100	113,099	49,777	105,203	154,980
Total General Revenues and Extraordinary Item	<u>2,079,241</u>	<u>60,100</u>	<u>2,139,341</u>	<u>1,953,930</u>	<u>105,203</u>	<u>2,059,133</u>
Total Revenues	<u>3,020,067</u>	<u>3,251,261</u>	<u>6,271,328</u>	<u>3,718,789</u>	<u>3,109,719</u>	<u>6,828,508</u>
Transfers	0	0	0	(5,000)	5,000	0
<i>Total Revenues and Transfers</i>	<u>3,020,067</u>	<u>3,251,261</u>	<u>6,271,328</u>	<u>3,713,789</u>	<u>3,114,719</u>	<u>6,828,508</u>
<b>Program Expenses</b>						
General Government	772,828	0	772,828	675,539	0	675,539
Security of Persons and Property:						
Police	1,017,720	0	1,017,720	899,465	0	899,465
Fire	389,331	0	389,331	454,599	0	454,599
Transportation	337,354	0	337,354	328,581	0	328,581
Leisure Time Activities	295,939	0	295,939	5,290	0	5,290
Public Health Services	36,967	0	36,967	40,607	0	40,607
Community Environment	135,475	0	135,475	514,975	0	514,975
Interest and Fiscal Charges	7,889	0	7,889	10,715	0	10,715
Water	0	300,865	300,865	0	1,307,385	1,307,385
Sewer	0	980,717	980,717	0	958,346	958,346
Garbage	0	1,819,688	1,819,688	0	302,451	302,451
<i>Total Program Expenses</i>	<u>2,993,503</u>	<u>3,101,270</u>	<u>6,094,773</u>	<u>2,929,771</u>	<u>2,568,182</u>	<u>5,497,953</u>
Increase in Net Position	26,564	149,991	176,555	784,018	546,537	1,330,555
Net Position Beginning of Year, Restated	6,143,419	8,074,450	14,217,869	N/A	N/A	N/A
Net Position End of Year	<u>\$6,169,983</u>	<u>\$8,224,441</u>	<u>\$14,394,424</u>	<u>\$6,143,419</u>	<u>\$8,074,450</u>	<u>\$14,217,869</u>

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
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The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$121,547 for governmental activities and \$105,337 for business-type activities computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$135,679 for governmental activities and \$93,936 for business-type activities. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	Governmental Activities	Business-Type Activities	Total
Total 2015 program expenses under GASB 68	\$2,993,503	\$3,101,270	\$6,094,773
Pension expense under GASB 68	(135,679)	(93,936)	(229,615)
2015 contractually required contribution	121,121	93,772	214,893
Adjusted 2015 program expenses	2,978,945	3,101,106	6,080,051
Total 2014 program expenses under GASB 27	2,929,771	2,568,182	5,497,953
Increase in program expenses not related to pension	\$49,174	\$532,924	\$582,098

***Governmental Activities***

Operating grants and contributions accounted for 19.8 percent of total governmental revenues. Property tax revenue provided 19 percent of total governmental revenues, and 42 percent was generated from income taxes. Income taxes, property taxes, and unrestricted grants and entitlements combined together, provided 65 percent of the City's total governmental revenues.

The City received \$179,718, or 5.9 percent of total governmental revenues, in charges for services. These direct charges to citizens include recreation fees, court fines and forfeitures, police security services, and licenses and permits.

The City's security of persons and property, police, activities accounted for \$1,017,720, or 34 percent, of total expenses. General government activities accounted for \$772,828, or 25.8 percent, of total expenses. Community environment activity accounted for \$135,475, or 4.5 percent, of total expenses. Leisure time activities accounted for \$295,939, or 9.9 percent, of total expenses. Transportation accounted for \$337,354, or 11.3 percent, of total expenses. Security of persons and property, fire, activities accounted for \$389,331, or 13 percent, of total expenses.

The following table presents the total expenses and net cost of each of the City's governmental program activities. The net cost (total program activity expenses less revenues generated by the program) represents the financial burden that was placed on the City's taxpayers by each of these program activities. Costs not covered by program revenues are essentially funded with the City's general revenues, which are primarily composed of income taxes, property taxes, intergovernmental revenues, and unrestricted investment interest earnings.

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**Table 3**  
**Program Expenses and Net Costs of Governmental Activities, by Program**  
**For the Year Ended December 31, 2015**

	Program Activity Expenses <u>2015</u>	Net Cost (Gain) of Program Activity <u>2015</u>	Program Activity Expenses <u>2014</u>	Net Cost (Gain) of Program Activity <u>2014</u>
General Government	\$772,828	\$622,125	\$675,539	\$527,759
Security of Persons and Property:				
Police	1,017,720	891,559	899,465	792,341
Fire	389,331	209,932	454,599	368,908
Transportation	337,354	54,819	328,581	(692,775)
Leisure Time Activities	295,939	132,315	5,290	5,290
Public Health Services	36,967	7,953	40,607	9,496
Community Environment	135,475	126,085	514,975	143,178
Interest and Fiscal Charges	7,889	7,889	10,715	10,715
<b>Totals</b>	<u><u>\$2,993,503</u></u>	<u><u>\$2,052,677</u></u>	<u><u>\$2,929,771</u></u>	<u><u>\$1,164,912</u></u>

***Business-Type Activities***

The City's business-type activities are for water, sewer, and garbage services. During 2015, program revenues exceeded expenses by \$89,891.

The minimum water rate is \$3 for the first one thousand gallons of water. Sewer fees are calculated on the amount of water used. The minimum sewer rate is \$3.71 per month. Garbage fees are assessed at a flat rate of a \$14.33 per month.

**The City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in accessing the City's financing requirements. In particular, unassigned fund balance serves as a useful measure of the City's net resources available for spending at the end of the year.

***General Fund***

The General Fund is the primary operating fund of the City. At the end of 2015, fund balance was \$869,477.

The fund balance of the City's General Fund increased by \$84,159.

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2015*  
*Unaudited*

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***Other Major Governmental Funds***

The fund balance of the Fire Levy Special Revenue Fund at December 31, 2015, was \$78,096, an increase of \$14,984.

The fund balance of the Recreation Fund at December 31, 2015, was (\$125,416). At December 31, 2014, the fund balance of the Recreation Fund was \$0. This decrease was primarily due to an increase in contracts payable.

The fund balance of the Permanent Investment Capital Projects Fund at December 31, 2015, was \$2,433,835, the same as the prior year. The balance represents the proceeds from the 1967 sale of the City's electric utility.

***Enterprise Funds***

The City's enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City's enterprise funds are the Water, Sewer, and Garbage Funds. The Water Fund's net position decreased \$122,588, the Sewer Fund's net position increased \$205,764, and the Garbage Fund's net position increased \$66,815.

**General Fund Budgetary Highlights**

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. From time to time during the year, the fund's budget may be amended as needs or conditions change.

The City did not make significant revisions to the original appropriations approved by City Council. The General Fund budgeted revenue and appropriations increased slightly during the year.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of 2015, the City's had \$12,249,571 invested in capital assets, net of accumulated depreciation. Table 4 shows fiscal year 2015 balances compared to 2014.

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2015*  
*Unaudited*

**Table 4**  
**Capital Assets**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$117,635	\$117,635	\$0	\$0	\$117,635	\$117,635
Land Improvements Not Depreciated	81,141	81,141	0	0	81,141	81,141
Improvements Other than Buildings	17,237	18,616	0	0	17,237	18,616
Buildings and Improvements	461,908	485,626	5,698,284	5,978,510	6,160,192	6,464,136
Equipment	66,861	34,933	194,908	219,859	261,769	254,792
Infrastructure	1,006,933	1,087,778	3,916,218	4,001,510	4,923,151	5,089,288
Vehicles	596,383	590,536	92,063	128,347	688,446	718,883
<b>Totals</b>	<b>\$2,348,098</b>	<b>\$2,416,265</b>	<b>\$9,901,473</b>	<b>\$10,328,226</b>	<b>\$12,249,571</b>	<b>\$12,744,491</b>

The total decrease in the City's capital assets, net of accumulated depreciation, for the current year was \$494,920 or 3.9 percent.

Governmental capital assets decreased in the amount \$68,167 due to depreciation, which was offset by additions. Business-type activities decreased in the amount of \$426,753, due to depreciation.

For additional information on capital assets, see Note 10 to the basic financial statements.

***Debt***

As of December 31, 2015, and December 31, 2014, the City had total long-term debt of \$3,275,656 and \$3,622,286, respectively, as follows:

**Table 5**  
**Outstanding Debt**

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$0	\$0	\$529,000	\$548,000	\$529,000	\$548,000
Revenue Bonds	0	0	1,327,000	1,376,000	1,327,000	1,376,000
OPWC Loans	0	0	88,555	127,149	88,555	127,149
OWDA Loans	0	0	1,003,360	1,183,769	1,003,360	1,183,769
Other Long-Term Loans	270,649	302,699	57,092	84,669	327,741	387,368
<b>Totals</b>	<b>\$270,649</b>	<b>\$302,699</b>	<b>\$3,005,007</b>	<b>\$3,319,587</b>	<b>\$3,275,656</b>	<b>\$3,622,286</b>

The City's overall legal debt margin was \$5,994,124. For additional information on debt, see Note 15 to the basic financial statements.

**Current Issues**

The City continues to work toward financial solvency, by adjusting and following its financial recovery plan, with the assistance of the fiscal emergency commission.

**City of Wellston, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2015*  
*Unaudited*

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**Requests for Information**

This financial report is designed to provide the City's citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report, please contact the City of Wellston Auditor's Office by calling (740)-384-2428 or by writing the City Auditor at 203 East Broadway, Wellston, Ohio 45692.

**City of Wellston, Ohio**  
*Statement of Net Position*  
*December 31, 2015*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,057,925	\$2,150,441	\$4,208,366
Investments in Segregated Accounts	2,608,835	0	2,608,835
Accounts Receivable	0	445,040	445,040
Permissive Motor Vehicle License Tax Receivable	6,012	0	6,012
Intergovernmental Receivable	269,041	0	269,041
Income Taxes Receivable	322,900	0	322,900
Property Taxes Receivable	702,830	0	702,830
Loans Receivable	145,334	0	145,334
Materials and Supplies Inventory	31,875	12,641	44,516
Non-Depreciable Capital Assets	198,776	0	198,776
Depreciable Capital Assets, Net	2,149,322	9,901,473	12,050,795
<i>Total Assets</i>	<u>8,492,850</u>	<u>12,509,595</u>	<u>21,002,445</u>
<b>Deferred Outflows of Resources</b>			
Pension	182,595	139,851	322,446
<b>Liabilities</b>			
Accounts Payable	37,595	104,489	142,084
Accrued Wages Payable	30,210	31,167	61,377
Intergovernmental Payable	56,158	39,420	95,578
Accrued Interest Payable	5,940	36,770	42,710
Contracts Payable	126,380	0	126,380
Customer Deposits Payable	0	217,656	217,656
Long-Term Liabilities:			
Due Within One Year	106,073	284,786	390,859
Due In More Than One Year:			
Net Pension Liability (See Note 11)	1,357,808	863,605	2,221,413
Other Amounts Due in More than One Year	262,923	2,831,940	3,094,863
<i>Total Liabilities</i>	<u>1,983,087</u>	<u>4,409,833</u>	<u>6,392,920</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	517,317	0	517,317
Pension	5,058	15,172	20,230
<i>Total Deferred Inflows of Resources</i>	<u>522,375</u>	<u>15,172</u>	<u>537,547</u>
<b>Net Position</b>			
Net Investment in Capital Assets	2,084,117	6,896,466	8,980,583
Restricted for:			
Street Construction	784,168	0	784,168
Police Protection	4,536	0	4,536
Fire Protection	156,946	0	156,946
Community Development	819,072	0	819,072
Capital Projects	2,477,515	0	2,477,515
Cemetery	21,564	0	21,564
Cemetery Perpetual Care	251,268	0	251,268
Unrestricted	(429,203)	1,327,975	898,772
<i>Total Net Position</i>	<u>\$6,169,983</u>	<u>\$8,224,441</u>	<u>\$14,394,424</u>

See accompanying notes to the basic financial statements.

**City of Wellston, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2015

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	
<b>Governmental Activities</b>				
General Government	\$772,828	\$56,993	\$93,710	\$0
Security of Persons and Property:				
Police	1,017,720	51,085	75,076	0
Fire	389,331	47,970	131,429	0
Transportation	337,354	0	282,535	0
Leisure Time Activities	295,939	0	1,484	162,140
Public Health Services	36,967	17,270	11,744	0
Community Environment	135,475	6,400	2,990	0
Interest and Fiscal Charges	7,889	0	0	0
<i>Total Governmental Activities</i>	<u>2,993,503</u>	<u>179,718</u>	<u>598,968</u>	<u>162,140</u>
<b>Business-Type Activities</b>				
Water	1,819,688	1,644,446	0	0
Sewer	980,717	1,180,728	0	0
Garbage	300,865	365,987	0	0
<i>Total Business-Type Activities</i>	<u>3,101,270</u>	<u>3,191,161</u>	<u>0</u>	<u>0</u>
<i>Totals</i>	<u><u>\$6,094,773</u></u>	<u><u>\$3,370,879</u></u>	<u><u>\$598,968</u></u>	<u><u>\$162,140</u></u>

**General Revenues**

Property Taxes Levied for:

    General Purposes

    Fire Protection

    Cemetery

    Streets

Income Taxes Levied for General Purposes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

*Total General Revenues*

*Change in Net Position*

*Net Position Beginning of Year (Restated, See Note 3)*

*Net Position End of Year*

See accompanying notes to the basic financial statements.



Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
(\$622,125)	\$0	(\$622,125)
(891,559)	0	(891,559)
(209,932)	0	(209,932)
(54,819)	0	(54,819)
(132,315)	0	(132,315)
(7,953)	0	(7,953)
(126,085)	0	(126,085)
(7,889)	0	(7,889)
<u>(2,052,677)</u>	<u>0</u>	<u>(2,052,677)</u>
0	(175,242)	(175,242)
0	200,011	200,011
0	65,122	65,122
<u>0</u>	<u>89,891</u>	<u>89,891</u>
<u>(2,052,677)</u>	<u>89,891</u>	<u>(1,962,786)</u>
158,798	0	158,798
251,699	0	251,699
50,936	0	50,936
111,269	0	111,269
1,269,590	0	1,269,590
120,287	0	120,287
63,663	0	63,663
52,999	60,100	113,099
<u>2,079,241</u>	<u>60,100</u>	<u>2,139,341</u>
26,564	149,991	176,555
<u>6,143,419</u>	<u>8,074,450</u>	<u>14,217,869</u>
<u>\$6,169,983</u>	<u>\$8,224,441</u>	<u>\$14,394,424</u>

**City of Wellston, Ohio**  
*Balance Sheet*  
**Governmental Funds**  
*December 31, 2015*

	General	Fire Levy	Recreation	Permanent Investment	Other Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$349,097	\$97,056	\$233,364	\$0	\$1,378,408
Investments in Segregated Accounts	0	0	0	2,433,835	175,000
Receivables:					
Income Tax	322,900	0	0	0	0
Property Taxes	217,628	291,121	0	0	194,081
Intergovernmental	53,743	15,026	32,285	0	167,987
Permissive MVL Taxes	0	0	0	0	6,012
Loans	0	0	0	0	145,334
Interfund	264,165	0	0	0	0
Materials and Supplies Inventory	0	0	0	0	31,875
<i>Total Assets</i>	<u>\$1,207,533</u>	<u>\$403,203</u>	<u>\$265,649</u>	<u>\$2,433,835</u>	<u>\$2,098,697</u>
<b>Liabilities</b>					
Accounts Payable	17,042	4,062	520	0	15,971
Contracts Payable	0	0	126,380	0	0
Accrued Wages Payable	22,813	5,227	0	0	2,170
Interfund Payable	0	0	264,165	0	0
Intergovernmental Payable	41,000	9,671	0	0	5,487
<i>Total Liabilities</i>	<u>80,855</u>	<u>18,960</u>	<u>391,065</u>	<u>0</u>	<u>23,628</u>
<b>Deferred Inflows of Resources</b>					
Property Taxes	160,185	214,279	0	0	142,853
Unavailable Revenue	97,016	91,868	0	0	142,192
<i>Total Deferred Inflows of Resources</i>	<u>257,201</u>	<u>306,147</u>	<u>0</u>	<u>0</u>	<u>285,045</u>
<b>Fund Balances</b>					
Nonspendable for Cemetery Perpetual Care	0	0	0	0	251,268
Nonspendable for Inventories	0	0	0	0	31,875
Restricted for:					
Street Construction	0	0	0	0	638,444
Police Protection	0	0	0	0	4,536
Fire Protection	0	78,096	0	0	0
Cemetery	0	0	0	0	1,149
Community Development	0	0	0	0	819,072
Capital Projects	0	0	0	2,433,835	43,680
Assigned to:					
Purchases on Order	3,272	0	0	0	0
Subsequent Year's Appropriations	27,990	0	0	0	0
Unassigned	838,215	0	(125,416)	0	0
<i>Total Fund Balances</i>	<u>869,477</u>	<u>78,096</u>	<u>(125,416)</u>	<u>2,433,835</u>	<u>1,790,024</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$1,207,533</u>	<u>\$403,203</u>	<u>\$265,649</u>	<u>\$2,433,835</u>	<u>\$2,098,697</u>

See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
*Reconciliation of Total Governmental Fund Balances  
to Net Position of Governmental Activities  
December 31, 2015*

<p style="text-align: center;">Total Governmental Funds</p> <hr style="width: 100%;"/> <p style="text-align: right;">\$2,057,925 2,608,835</p> <p style="text-align: right;">322,900 702,830 269,041 6,012 145,334 264,165 31,875</p> <hr style="width: 100%;"/> <p style="text-align: right;"><u>\$6,408,917</u></p>	<p><b>Total Governmental Fund Balances</b> <span style="float: right;">\$5,046,016</span></p> <p><i>Amounts reported for governmental activities in the statement of net position are different because:</i></p> <p>Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. <span style="float: right;">2,348,098</span></p> <p>Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Delinquent Property Taxes</td> <td style="width: 20%; text-align: right;">185,513</td> <td style="width: 30%;"></td> </tr> <tr> <td>Intergovernmental Revenues</td> <td style="text-align: right;"><u>145,563</u></td> <td style="text-align: right;">331,076</td> </tr> </table> <p>The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Deferred Outflows - Pension</td> <td style="width: 20%; text-align: right;">182,595</td> <td style="width: 30%;"></td> </tr> <tr> <td>Deferred Inflows - Pension</td> <td style="text-align: right;">(5,058)</td> <td></td> </tr> <tr> <td>Net Pension Liability</td> <td style="text-align: right;"><u>(1,357,808)</u></td> <td style="text-align: right;">(1,180,271)</td> </tr> </table> <p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Compensated Absences</td> <td style="width: 20%; text-align: right;">(98,347)</td> <td style="width: 30%;"></td> </tr> <tr> <td>Accrued Interest Payable</td> <td style="text-align: right;">(5,940)</td> <td></td> </tr> <tr> <td>Long-Term Loans Payable</td> <td style="text-align: right;"><u>(270,649)</u></td> <td style="text-align: right;">(374,936)</td> </tr> </table> <p>Net Position of Governmental Activities <span style="float: right;"><u>\$6,169,983</u></span></p>	Delinquent Property Taxes	185,513		Intergovernmental Revenues	<u>145,563</u>	331,076	Deferred Outflows - Pension	182,595		Deferred Inflows - Pension	(5,058)		Net Pension Liability	<u>(1,357,808)</u>	(1,180,271)	Compensated Absences	(98,347)		Accrued Interest Payable	(5,940)		Long-Term Loans Payable	<u>(270,649)</u>	(374,936)
Delinquent Property Taxes	185,513																								
Intergovernmental Revenues	<u>145,563</u>	331,076																							
Deferred Outflows - Pension	182,595																								
Deferred Inflows - Pension	(5,058)																								
Net Pension Liability	<u>(1,357,808)</u>	(1,180,271)																							
Compensated Absences	(98,347)																								
Accrued Interest Payable	(5,940)																								
Long-Term Loans Payable	<u>(270,649)</u>	(374,936)																							
<p style="text-align: right;">37,595 126,380 30,210 264,165 56,158</p> <hr style="width: 100%;"/> <p style="text-align: right;">514,508</p> <p style="text-align: right;">517,317 331,076</p> <hr style="width: 100%;"/> <p style="text-align: right;">848,393</p> <p style="text-align: right;">251,268 31,875</p> <p style="text-align: right;">638,444 4,536 78,096 1,149 819,072 2,477,515</p> <p style="text-align: right;">3,272 27,990 712,799</p> <hr style="width: 100%;"/> <p style="text-align: right;">5,046,016</p> <hr style="width: 100%;"/> <p style="text-align: right;"><u>\$6,408,917</u></p>																									

**City of Wellston, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2015*

	General	Fire Levy	Recreation	Permanent Investment	Other Governmental Funds
<b>Revenues</b>					
Property Taxes	\$156,954	\$250,674	\$0	\$0	\$161,522
Income Taxes	1,269,590	0	0	0	0
Permissive Motor Vehicle License Tax	0	0	0	0	80,272
Intergovernmental	121,916	128,944	162,140	0	443,759
Charges for Services	15,585	47,970	0	0	17,270
Fines and Forfeitures	34,701	0	0	0	799
Licenses and Permits	13,005	0	0	0	0
Investment Earnings	63,663	0	0	0	6,933
Rent	43,988	0	0	0	6,400
Contributions and Donations	0	5,000	1,484	0	3,000
Miscellaneous	12,283	6,560	0	0	34,156
<i>Total Revenues</i>	<u>1,731,685</u>	<u>439,148</u>	<u>163,624</u>	<u>0</u>	<u>754,111</u>
<b>Expenditures</b>					
Current:					
General Government	651,835	0	0	0	129,859
Security of Persons and Property:					
Police	876,141	0	0	0	114,806
Fire	0	404,164	0	0	0
Transportation	0	0	0	0	278,434
Public Health Services	0	0	0	0	33,720
Leisure Time Services	0	0	289,040	0	0
Community Environment	0	0	0	0	115,117
Debt Service:					
Principal Retirement	0	15,108	0	0	16,942
Interest and Fiscal Charges	0	4,892	0	0	3,681
<i>Total Expenditures</i>	<u>1,527,976</u>	<u>424,164</u>	<u>289,040</u>	<u>0</u>	<u>692,559</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>203,709</u>	<u>14,984</u>	<u>(125,416)</u>	<u>0</u>	<u>61,552</u>
<b>Other Financing Sources (Uses)</b>					
Transfers In	0	0	0	0	119,550
Transfers Out	(119,550)	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(119,550)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>119,550</u>
<i>Net Change in Fund Balance</i>	84,159	14,984	(125,416)	0	181,102
<i>Fund Balances Beginning of Year</i>	<u>785,318</u>	<u>63,112</u>	<u>0</u>	<u>2,433,835</u>	<u>1,608,922</u>
<i>Fund Balances End of Year</i>	<u>\$869,477</u>	<u>\$78,096</u>	<u>(\$125,416)</u>	<u>\$2,433,835</u>	<u>\$1,790,024</u>

See accompanying notes to the basic financial statements.

**City of Wellston, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2015*

	<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$154,829
Total Governmental Funds	<i>Amounts reported for governmental activities in the  statement of activities are different because:</i>	
\$569,150 1,269,590 80,272 856,759 80,825 35,500 13,005 70,596 50,388 9,484 52,999 <hr/> 3,088,568	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:	
	Capital Outlay	109,972
	Depreciation	(178,139)
	Excess of depreciation over capital outlay	(68,167)
	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
	Delinquent Property Taxes	3,552
	Intergovernmental Revenues	(72,053)
		(68,501)
	Repayments of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	32,050
781,694 990,947 404,164 278,434 33,720 289,040 115,117 32,050 8,573 <hr/> 2,933,739	In the statement of activities, interest is accrued on outstanding debt, whereas is governmental funds, interest is expended when due.	684
	Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(9,773)
	Contractually required contributions are reported as expenditures in governmental funds however, the Statement of Net Position reports these amounts as deferred outflows	121,121
154,829	Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the Statement of Activities	(\$135,679)
	<i>Change in Net Position of Governmental Activities</i>	<u>\$26,564</u>
119,550 (119,550)		
0		
154,829		
4,891,187		
\$5,046,016		

**City of Wellston, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Year Ended December 31, 2015*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$153,100	\$153,100	\$156,954	\$3,854
Income Taxes	1,100,000	1,100,000	1,250,134	150,134
Intergovernmental	129,100	129,100	122,556	(6,544)
Charges for Services	16,350	16,350	15,585	(765)
Licenses and Permits	5,300	5,300	13,005	7,705
Fines and Forfeitures	30,000	30,000	36,869	6,869
Investment Earnings	64,400	64,400	63,604	(796)
Rent	44,496	44,496	43,988	(508)
Miscellaneous	0	0	12,283	12,283
<i>Total Revenues</i>	<u>1,542,746</u>	<u>1,542,746</u>	<u>1,714,978</u>	<u>172,232</u>
<b>Expenditures</b>				
Current:				
General Government	661,731	661,731	665,495	(3,764)
Security of Persons and Property:				
Police	<u>867,615</u>	<u>907,615</u>	<u>892,380</u>	<u>15,235</u>
<i>Total Expenditures</i>	<u>1,529,346</u>	<u>1,569,346</u>	<u>1,557,875</u>	<u>11,471</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	13,400	(26,600)	157,103	183,703
<b>Other Financing Sources (Uses)</b>				
Advance In	0	0	129,855	129,855
Advance Out	0	0	(394,020)	(394,020)
Transfers Out	<u>(130,000)</u>	<u>(130,000)</u>	<u>(119,550)</u>	<u>10,450</u>
<i>Total Other Financing Sources (Uses)</i>	<u>(130,000)</u>	<u>(130,000)</u>	<u>(383,715)</u>	<u>(253,715)</u>
<i>Net Change in Fund Balance</i>	(116,600)	(156,600)	(226,612)	(70,012)
<i>Fund Balance at Beginning of Year</i>	541,187	541,187	541,187	0
Prior Year Encumbrances Appropriated	<u>26,879</u>	<u>26,879</u>	<u>26,879</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$451,466</u></u>	<u><u>\$411,466</u></u>	<u><u>\$341,454</u></u>	<u><u>(\$70,012)</u></u>

See accompanying notes to the basic financial statements.

**City of Wellston, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
Fire Levy Fund  
For the Year Ended December 31, 2015*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$248,094	\$248,094	\$250,674	\$2,580
Intergovernmental	20,000	20,000	47,970	27,970
Charges for Services	132,845	225,845	131,244	(94,601)
Contributions and Donations	0	0	5,000	5,000
Miscellaneous	0	0	6,560	6,560
<i>Total Revenues</i>	<u>400,939</u>	<u>493,939</u>	<u>441,448</u>	<u>(52,491)</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property:				
Fire	403,001	509,401	411,443	97,958
Debt Service:				
Principal Retirement	15,108	15,108	15,108	0
Interest and Fiscal Charges	4,892	4,892	4,892	0
<i>Total Expenditures</i>	<u>423,001</u>	<u>529,401</u>	<u>431,443</u>	<u>97,958</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(22,062)</u>	<u>(35,462)</u>	<u>10,005</u>	<u>45,467</u>
<i>Fund Balance at Beginning of Year</i>	80,027	80,027	80,027	0
Prior Year Encumbrances Appropriated	<u>2,407</u>	<u>2,407</u>	<u>2,407</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$60,372</u></u>	<u><u>\$46,972</u></u>	<u><u>\$92,439</u></u>	<u><u>\$45,467</u></u>

See accompanying notes to the basic financial statements.

**City of Wellston, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
Recreation Fund  
For the Year Ended December 31, 2015*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$0	\$450,000	\$129,855	(\$320,145)
Contributions and Donations	0	0	1,484	1,484
<i>Total Revenues</i>	0	450,000	131,339	(318,661)
<b>Expenditures</b>				
Current:				
Leisure Time Activities		450,000	395,504	54,496
<i>Total Expenditures</i>	0	450,000	395,504	54,496
<i>Excess of Revenues Under Expenditures</i>	0	0	(264,165)	(264,165)
<b>Other Financing Sources</b>				
Advance In	0	0	264,165	264,165
<i>Total Other Financing Sources</i>	0	0	264,165	264,165
<i>Net Change in Fund Balance</i>	0	0	0	0
<i>Fund Balance at Beginning of Year</i>	0	0	0	0
<i>Fund Balance at End of Year</i>	\$0	\$0	\$0	\$0

See accompanying notes to the basic financial statements.



**City of Wellston, Ohio**  
*Statement of Fund Net Position*  
*Enterprise Funds*  
*December 31, 2015*

	Water	Sewer	Garbage	Total Enterprise Funds
<b>Assets</b>				
<b>Current:</b>				
Equity in Pooled Cash and Cash Equivalents	\$838,142	\$841,282	\$253,361	\$1,932,785
Accounts Receivable	204,673	192,244	48,123	445,040
Materials and Supplies Inventory	12,641	0	0	12,641
<b>Restricted Assets:</b>				
Customer Deposits- Cash and Cash Equivalents	217,656	0	0	217,656
<i>Total Current Assets</i>	<u>1,273,112</u>	<u>1,033,526</u>	<u>301,484</u>	<u>2,608,122</u>
<b>Noncurrent:</b>				
Depreciable Capital Assets, Net	4,204,388	5,627,660	69,425	9,901,473
<i>Total Assets</i>	<u>5,477,500</u>	<u>6,661,186</u>	<u>370,909</u>	<u>12,509,595</u>
<b>Deferred Outflows of Resources</b>				
Pension	70,858	48,482	20,511	139,851
<b>Liabilities</b>				
<b>Current:</b>				
Accounts Payable	73,694	15,815	14,980	104,489
Accrued Wages Payable	17,340	9,553	4,274	31,167
Intergovernmental Payable	23,348	11,043	5,029	39,420
Accrued Interest Payable	4,085	32,554	131	36,770
OPWC Loans Payable	20,012	3,032	0	23,044
OWDA Loans Payable	14,547	118,788	0	133,335
Compensated Absences Payable	22,822	23,462	11,123	57,407
General Obligation Bonds Payable	0	20,000	0	20,000
<b>Payable from Restricted Assets:</b>				
Customer Deposits Payable	217,656	0	0	217,656
Revenue Bonds	0	51,000	0	51,000
<i>Total Current Liabilities</i>	<u>393,504</u>	<u>285,247</u>	<u>35,537</u>	<u>714,288</u>
<b>Long-Term:</b>				
OPWC Loans Payable	53,383	12,128	0	65,511
OWDA Loans Payable	870,025	0	0	870,025
Loans Payable	0	0	57,092	57,092
Compensated Absences Payable	26,188	17,127	10,997	54,312
General Obligation Bonds Payable	0	509,000	0	509,000
Revenue Bonds Payable	0	1,276,000	0	1,276,000
Net Pension Liability	437,561	299,383	126,661	863,605
<i>Total Long-Term Liabilities</i>	<u>1,387,157</u>	<u>2,113,638</u>	<u>194,750</u>	<u>3,695,545</u>
<i>Total Liabilities</i>	<u>1,780,661</u>	<u>2,398,885</u>	<u>230,287</u>	<u>4,409,833</u>
<b>Deferred Inflows of Resources</b>				
Pension	7,687	5,260	2,225	15,172
<b>Net Position</b>				
Net Investment in Capital Assets	3,246,419	3,637,714	12,333	6,896,466
Unrestricted	513,591	667,809	146,575	1,327,975
<i>Total Net Position</i>	<u>\$3,760,010</u>	<u>\$4,305,523</u>	<u>\$158,908</u>	<u>\$8,224,441</u>

See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
*Statement of Revenues, Expenses and Changes in Fund Net Position*  
*Enterprise Funds*  
*For the Year Ended December 31, 2015*

	Water	Sewer	Garbage	Total Enterprise Funds
<b>Operating Revenues</b>				
Charges for Services	\$1,644,446	\$1,180,728	\$365,987	\$3,191,161
Miscellaneous	52,654	5,753	1,693	60,100
<i>Total Operating Revenues</i>	<u>1,697,100</u>	<u>1,186,481</u>	<u>367,680</u>	<u>3,251,261</u>
<b>Operating Expenses</b>				
Personal Services	460,072	256,071	121,210	837,353
Fringe Benefits	233,152	137,942	49,399	420,493
Contractual Services	247,469	144,569	88,301	480,339
Materials and Supplies	306,127	89,372	8,370	403,869
Depreciation	147,331	251,652	27,770	426,753
Capital Outlay	410,633	3,350	3,350	417,333
Other	1,650	0	2	1,652
<i>Total Operating Expenses</i>	<u>1,806,434</u>	<u>882,956</u>	<u>298,402</u>	<u>2,987,792</u>
<i>Operating Income (Loss)</i>	(109,334)	303,525	69,278	263,469
<b>Non-Operating Expenses</b>				
Interest and Fiscal Charges	(13,254)	(97,761)	(2,463)	(113,478)
<i>Change in Net Position</i>	(122,588)	205,764	66,815	149,991
<i>Net Position Beginning of Year (Restated- See Note 3)</i>	<u>3,882,598</u>	<u>4,099,759</u>	<u>92,093</u>	<u>8,074,450</u>
<i>Net Position End of Year</i>	<u><u>\$3,760,010</u></u>	<u><u>\$4,305,523</u></u>	<u><u>\$158,908</u></u>	<u><u>\$8,224,441</u></u>

See accompanying notes to the basic financial statements.

**City of Wellston, Ohio**  
*Statement of Cash Flows*  
*Enterprise Funds*  
For the Year Ended December 31, 2015

	Water	Sewer	Garbage	Total Enterprise Funds
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$1,588,973	\$1,092,602	\$350,851	\$3,032,426
Other Cash Receipts	52,654	5,753	1,693	60,100
Cash Payments for Employee Services and Benefits	(694,139)	(398,123)	(173,904)	(1,266,166)
Cash Payments for Goods and Services	(985,787)	(238,470)	(96,668)	(1,320,925)
Utility Deposits Received	51,939	0	0	51,939
Utility Deposits Returned	(35,785)	0	0	(35,785)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>(22,145)</u>	<u>461,762</u>	<u>81,972</u>	<u>521,589</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from OWDA Loans	401	0	0	401
Principal Paid on General Obligation Bonds	0	(19,000)	0	(19,000)
Principal Paid on Revenue Bonds	0	(49,000)	0	(49,000)
Principal Paid on OPWC Loans	(35,562)	(3,032)	0	(38,594)
Principal Paid on OWDA Loans	(36,354)	(144,456)	0	(180,810)
Principal Paid on Other Loans	0	0	(27,577)	(27,577)
Interest Paid on General Obligation Bonds	0	(27,350)	0	(27,350)
Interest Paid on Revenue Bonds	0	(68,750)	0	(68,750)
Interest Paid on OWDA Loans	(13,370)	(5,002)	0	(18,372)
Interest Paid on Other Loans	0	0	(2,526)	(2,526)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(84,885)</u>	<u>(316,590)</u>	<u>(30,103)</u>	<u>(431,578)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(107,030)	145,172	51,869	90,011
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,162,828</u>	<u>696,110</u>	<u>201,492</u>	<u>2,060,430</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$1,055,798</u>	<u>\$841,282</u>	<u>\$253,361</u>	<u>\$2,150,441</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>				
Operating Income (Loss)	(\$109,334)	\$303,525	\$69,278	\$263,469
Adjustments:				
Depreciation	147,331	251,652	27,770	426,753
Changes in Assets and Liabilities:				
(Increase) in Accounts Receivable	(56,073)	(88,126)	(15,136)	(159,335)
(Increase) in Deferred Outflows - Pension	(17,488)	(11,965)	(5,061)	(34,514)
(Increase) in Materials and Supplies Inventory	(1,141)	0	0	(1,141)
Increase in Accounts Payable	38,080	2,506	3,355	43,941
Increase in Accrued Wages Payable	3,063	2,093	530	5,686
(Decrease) in Contracts Payable	(55,690)	0	0	(55,690)
(Decrease) in Intergovernmental Payable	(12,428)	(9,496)	(2,830)	(24,754)
Increase in Customer Deposits Payable	16,754	0	0	16,754
Increase (Decrease) in Compensated Absences Payable	7,210	(449)	(1,019)	5,742
Increase in Net Pension Liability	9,884	6,762	2,860	19,506
Increase in Deferred Inflows - Pension	7,687	5,260	2,225	15,172
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>(\$22,145)</u>	<u>\$461,762</u>	<u>\$81,972</u>	<u>\$521,589</u>

See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
*Statement of Assets and Liabilities*  
*Agency Funds*  
*December 31, 2015*

**Assets**

Equity in Pooled Cash and Cash Equivalents	<u>\$24,558</u>
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**Liabilities**

Due to Others	<u>\$24,558</u>
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See accompanying notes to the basic financial statements

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

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**NOTE 1 - REPORTING ENTITY**

The City of Wellston (the “City”) is a body politic, incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the laws of the State of Ohio. The City was founded in 1873.

The Mayor, Auditor, Law Director, and Treasurer are each elected to four year terms. A seven member Council, plus a Council President are elected to two year terms. Department directors and public members of various boards and commissions are appointed by the Mayor or Council.

**Reporting Entity**

The financial reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading. The primary government consists of all funds and departments that are not legally separate from the City. Services provided by the primary government include police and fire protection, street maintenance and repairs, community development, parks and recreation, and water, sewer, and garbage services. A staff provides support (i.e., payroll processing, accounts payable, revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the City Auditor and the City Mayor through administrative and managerial requirements and procedures.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. No potential component units met these criteria.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Wellston have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

**A. Basis of Presentation**

The City’s basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements which provide a more detailed level of financial information.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

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Government-wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited expectations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The General Fund accounts for and reports all financial resources not accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Fire Levy Fund - The Fire Levy Special Revenue Fund is used to account for the operation of the Wellston Fire Department.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

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Recreation Fund - The Recreation Special Revenue Fund is used to account for grants for the purpose of community development.

Permanent Investment Fund - The Permanent Investment Capital Projects Fund is used to account for proceeds from the sale of the City's electric plant. Per local ordinance, these proceeds may only be used for capital expenditures.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service. The City's proprietary funds are all classified as enterprise funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. All of the City's enterprise funds are major funds.

Water Fund - The Water Fund is used to account for the revenues generated from the charges for distribution of water to the residential and commercial users within the City.

Sewer Fund - The Sewer Fund is used to account for the revenues generated from the charges for sanitary sewer services provided to the residential and commercial users within the City.

Garbage Fund - The Garbage Fund is used to account for the revenues generated from the charges for garbage removal services provided to the residential and commercial users within the City.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. There are four categories of fiduciary funds; pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds. The City's agency funds account for monies held for police and fire auxiliary organizations.

C. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenditures) in total net position.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

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Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net position. The statement of changes in revenues, expenses, and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year end.

Non-exchange transactions, in which the City received value without directly giving equal value in return, includes income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the taxable income is earned. Revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursable basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue resources are considered to be both measurable and available at year end: interest, federal and state grant subsidies, state-levied local shared taxes (including motor vehicle license fees and gasoline taxes), income taxes, fees, and rentals.



**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

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Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide Statement of Net Position and include pension expense. A deferral for pension results from changes in Net Position Liability not recognized as a component of current year pension expense. This amount is deferred and amortized over various periods as instructed by the pension plan administrators. Deferred outflows of resources related to pension are explained further in Note 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 19. Additionally, deferred inflows related to pensions are reported in the government-wide Statement of Net Position. Deferred inflows related to pensions result from changes in Net Pension Liability not recognized as a component of current year pension expense. Deferred inflows of resources related to pension are explained further in Note 11.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolutions, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the City Council may appropriate. The appropriations resolution is the City Council's authorization to spend resources and sets annual limits on the expenditures plus encumbrances at the level

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

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of control selected by the City Council. The legal level of budgetary control is at the object level within each department. Any budgetary modifications at this level may only be made by resolution of the City Council. Advances between funds are not required to be budgeted.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were adopted by City Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriation resolution for the fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by City Council during the year.

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, except for the Permanent Investment Capital Projects Fund and a portion of the Cemetery Perpetual Care Permanent Fund, are maintained in this pool. Interest in the pool is presented as “equity in pooled cash and cash equivalents.”

During 2015, investments were limited to certificates of deposit, which are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2015 amounted to \$63,663, which includes \$60,220 assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

G. Receivables and Payables

Receivables and payables are recorded on the City’s financial statements to the extent that the amounts are determined to be material and are substantiated not only by supporting documentation, but also, by a reasonable, systematic method of determining their existence, completeness, valuation and, in the case of receivables, collectibility.

H. Interfund Balances

In general, on fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as “interfund receivables/payables.” The amounts are eliminated in the governmental and business-type activities columns on the statements of net position.

**City of Wellston, Ohio**  
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**I. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the enterprise funds represent water customer deposits.

**J. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities columns of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Governmental activities' infrastructure amounts represent capital asset purchases made since January 1, 2004. The City has elected not to retroactively report governmental activities' infrastructure. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of ten thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated except for land, certain land improvements, and construction in progress. Improvements are depreciated over the remaining useful life of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	20 years	N/A
Buildings and Improvements	20-40 years	20-40 years
Equipment	15 years	15 years
Infrastructure	15 years	70 years
Vehicles	5-25 years	5-25 years

**K. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

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The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The City records a liability for accumulated unused sick leave for employees after ten years of service.

**L. Accrued Liabilities and Long-Term Obligations**

The City reports all payables, accrued liabilities, and long-term obligations in the government-wide financial statements and it reports all payables, accrued liabilities, and long-term obligations payable from proprietary funds in the proprietary fund financial statements.

In general, the City reports governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, as obligations of the funds. However compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that these liabilities come due for payment during the current year. The City recognizes long-term loans as a liability in the governmental fund financial statements when due.

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
Compensated Absences	The fund from which the employee's salary is paid.
Vehicle Loans	General Fund, Fire Levy Fund, Sales Tax Fund
Revenue Bonds	Sewer Fund
OWDA Loans	Water Fund and Sewer Fund
OPWC Loans	Water Fund and Sewer Fund
Safe Water Loans	Water Fund
General Obligation Bonds	Sewer Fund
CDBG Loans	Sales Tax Fund

**M. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

***Nonspendable*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans, if any.

***Restricted*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation (City Ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandates payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

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***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

***Unassigned*** Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

#### N. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the constitutional provisions or through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

#### O. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers within governmental activities are eliminated.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
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Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser fund. Flows of cash or goods from one fund to another without a requirement for repayment should be reported as internal transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the fund financial statements.

P. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Q. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sewer, water, and garbage utility services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting the definition are reported as nonoperating.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City that are either unusual in nature or infrequent in occurrence

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For 2015, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

**City of Wellston, Ohio**  
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	<u>Governmental Activities</u>	<u>Business -Type Activities</u>
Net Position December 31, 2014	\$7,309,132	\$8,813,212
Adjustments:		
Net Pension Liability	(1,287,260)	(844,099)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>121,547</u>	<u>105,337</u>
Restated Net Position December 31, 2014	<u>\$6,143,419</u>	<u>\$8,074,450</u>

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total Enterprise</u>
Net Position December 31, 2014	\$4,256,905	\$4,355,863	\$200,444	\$8,813,212
Adjustments:				
Net Pension Liability	(427,677)	(292,621)	(123,801)	(844,099)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>53,370</u>	<u>36,517</u>	<u>15,450</u>	<u>105,337</u>
Restated Net Position December 31, 2014	<u>\$3,882,598</u>	<u>\$4,099,759</u>	<u>\$92,093</u>	<u>\$8,074,450</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**NOTE 4 - FUND DEFICITS**

The Recreation Special Revenue Fund had a deficit fund balance of \$125,416 as of December 31, 2015. This deficit is due to a negative cash balance, combined with adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances, Budget and Actual (Budget Basis), are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

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*Notes to the Basic Financial Statements*  
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2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as committed or assigned fund balance (GAAP basis).
4. Unrecorded cash and interest is reported on the balance sheet (GAAP) but not on the budgetary basis.

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis are as follows:

Net Change in Fund Balances

	General	Fire Levy	Recreation
GAAP Basis	\$84,159	\$14,984	(\$125,416)
Net Adjustment for Revenue Accruals	(16,179)	2,300	(32,285)
Net Adjustment for Expenditure Accruals	(22,784)	50,479	126,900
End of Year:			
Unreported Interest	(528)	0	0
Advances In	0	0	264,165
Advances Out	(264,165)	0	0
Encumbrances	(7,115)	(57,758)	(233,364)
Budget Basis	(\$226,612)	\$10,005	\$0

**NOTE 6 - DEPOSITS AND INVESTMENTS**

Monies held by the City are classified by State statute into three.

Active deposits are public monies determined to be necessary to meet current demands upon the City treasury. Active monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.



**City of Wellston, Ohio**  
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Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitation bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

#### Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$6,841,759 and the bank balance was \$6,866,445. Of the bank balance, \$552,000 was covered by Federal depository insurance, \$2,382,283 was covered by pledged securities and \$3,932,162 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
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The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**NOTE 7 - PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2015 for real and public utility property taxes represents collections of 2014 taxes.

2015 real property taxes are levied after October 1, 2015, on the assessed value as of January 1, 2015, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2015 real property taxes are collected in and intended to finance 2016.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20.

Under certain circumstances, State statute permits later payment dates to be established. Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2015 public utility property taxes which became a lien December 31, 2014, are levied after October 1, 2015, and are collected in 2016 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2015, was \$10.80 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2015 property tax receipts were based are as follows:

Real Property	\$58,044,330
Public Utility Real Property	31,720
Public Utility Personal Property	<u>1,588,450</u>
Total	<u>\$59,664,500</u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property and public utility taxes and outstanding delinquencies which are measurable as of December 31, 2015, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2015 operations is offset to deferred inflows of resources - property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources - unavailable revenue.

**NOTE 8 - INCOME TAX**

The City levies a municipal income tax of one percent on substantially all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside of the City; however, the City allows a credit for income taxes paid to another municipality.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the Regional Income Tax Agency (RITA, the City's third party administrator) quarterly.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
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Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration semi-annually.

Income tax proceeds are to be used for the purposes of general municipal operations, maintenance of facilities, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Wellston. In 2015, all proceeds were receipted into the General Fund.

**NOTE 9 - RECEIVABLES**

Receivables at December 31, 2015, consisted primarily of taxes; loans; interfund receivables; intergovernmental receivables arising from grants, entitlements, and shared revenues; and utility accounts. All receivables are considered fully collectible. Delinquent utility accounts receivable (billings for user charged services) are certified and collected as special assessments, subject to foreclosure for nonpayment. The financial statements reflect loans receivable of \$145,334 for principal owed to the City for CDBG and UDAG revolving loan monies loaned to businesses for improvement and expansion efforts. All receivables are expected to be collected within one year, with the exception of delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$185,513, as well as \$144,315 of the outstanding CDBD and UDAG revolving loan receivables.

A summary of intergovernmental receivables follows:

<b><u>Governmental Activities:</u></b>	
Local Government Subsidies	\$42,510
Gasoline Tax	87,703
Motor Vehicle License Tax	30,052
Homestead and Rollback	36,276
Sales Tax	40,215
Recreation Grant	<u>32,285</u>
Total Intergovernmental Receivables	<u><u>\$269,041</u></u>

**City of Wellston, Ohio**  
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**NOTE 10 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015, was as follows:

	Balance 12/31/2014	Additions	Reductions	Balance 12/31/2015
<b><u>Governmental Activities:</u></b>				
Non-Depreciable Capital Assets:				
Land	\$117,635	\$0	\$0	\$117,635
Land Improvements	81,141	0	0	81,141
Total Non-Depreciable Capital Assets	<u>198,776</u>	<u>0</u>	<u>0</u>	<u>198,776</u>
Depreciable Capital Assets:				
Improvements Other than Buildings	27,579	0	0	27,579
Buildings and Improvements	1,031,886	0	0	1,031,886
Equipment	214,351	37,974	0	252,325
Infrastructure	1,424,779	0	0	1,424,779
Vehicles	1,223,914	71,998	0	1,295,912
Total Depreciable Capital Assets	<u>3,922,509</u>	<u>109,972</u>	<u>0</u>	<u>4,032,481</u>
Accumulated Depreciation:				
Improvements Other than Buildings	8,963	1,379	0	10,342
Buildings and Improvements	546,260	23,718	0	569,978
Equipment	179,418	6,046	0	185,464
Infrastructure	337,001	80,845	0	417,846
Vehicles	633,378	66,151	0	699,529
Total Accumulated Depreciation	<u>1,705,020</u>	<u>178,139</u> *	<u>0</u>	<u>1,883,159</u>
Total Depreciable Capital Assets, Net	<u>2,217,489</u>	<u>(68,167)</u>	<u>0</u>	<u>2,149,322</u>
Governmental Activities Capital Assets, Net	<u>\$2,416,265</u>	<u>(\$68,167)</u>	<u>\$0</u>	<u>\$2,348,098</u>

**City of Wellston, Ohio**  
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\*Depreciation expense was charged to governmental activities as follows:

<b><u>Governmental Activities:</u></b>	
General Government	\$780
Security of Persons and Property- Police	12,800
Security of Persons and Property- Fire	30,102
Transportation	103,953
Leisure Time Activities	6,899
Public Health Services	3,247
Community Environment	20,358
Total Depreciation Expense	<u><u>\$178,139</u></u>

	Balance 12/31/2014	Additions	Reductions	Balance 12/31/2015
<b><u>Business - Type Activities:</u></b>				
Depreciable Capital Assets:				
Buildings and Improvements	\$11,208,952	\$0	\$0	\$11,208,952
Equipment	642,009	0	0	642,009
Infrastructure	5,268,221	0	0	5,268,221
Vehicles	770,688	0	0	770,688
Total Depreciable Capital Assets	<u>17,889,870</u>	<u>0</u>	<u>0</u>	<u>17,889,870</u>
Accumulated Depreciation:				
Buildings and Improvements	5,230,442	280,226	0	5,510,668
Equipment	422,150	24,951	0	447,101
Infrastructure	1,266,711	85,292	0	1,352,003
Vehicles	642,341	36,284	0	678,625
Total Accumulated Depreciation	<u>7,561,644</u>	<u>426,753</u>	<u>0</u>	<u>7,988,397</u>
Total Depreciable Capital Assets, Net	<u>10,328,226</u>	<u>(426,753)</u>	<u>0</u>	<u>9,901,473</u>
Business - Type Activities Capital Assets, Net	<u><u>\$10,328,226</u></u>	<u><u>(\$426,753)</u></u>	<u><u>\$0</u></u>	<u><u>\$9,901,473</u></u>

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**Net Pension Liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

**City of Wellston, Ohio**  
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<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
<b>2015 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
<b>2015 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution was \$125,029 for 2015. Of this amount, \$18,483 is reported as an intergovernmental payable.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
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***Plan Description – Ohio Police & Fire Pension Fund (OP&F)***

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:



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	<u>Police</u>	<u>Firefighters</u>
<b>2015 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %
<b>2015 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$89,864 for 2015. Of this amount \$13,166 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,151,471	\$1,069,942	\$2,221,413
Proportion of the Net Pension Liability	0.009547%	0.0206536%	
Pension Expense	\$125,247	\$104,368	\$229,615

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	OPERS	OP&F	Total
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$61,439	\$46,114	\$107,553
City contributions subsequent to the measurement date	125,029	89,864	214,893
Total Deferred Outflows of Resources	\$186,468	\$135,978	\$322,446
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$20,230	\$0	\$20,230

\$214,893 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS	OP&F	Total
Year Ending December 31:			
2016	\$6,026	\$11,528	\$17,554
2017	6,026	11,528	17,554
2018	13,798	11,528	25,326
2019	15,361	11,528	26,889
Total	\$41,211	\$46,112	\$87,323

***Actuarial Assumptions - OPERS***

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating

**City of Wellston, Ohio**  
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disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.28 %</u>

**Discount Rate** The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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***Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$2,118,384	\$1,151,471	\$337,105

***Actuarial Assumptions – OP&F***

OP&F's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each

**City of Wellston, Ohio**  
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major asset class included in OP&F's target asset allocation as of December 31, 2014 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	<u>120.00 %</u>	

\* levered 2x

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

**Discount Rate** The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	<u>1% Decrease (7.25%)</u>	<u>Current Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
City's proportionate share of the net pension liability	\$1,479,892	\$1,069,942	\$722,840

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a health reimbursement arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, state and local employers contributed at a rate of 14.0 percent of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both plans. The Board is

**City of Wellston, Ohio**  
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also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5 percent.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2015, 2014, and 2013 was \$20,838, \$24,451, and \$11,756, respectively. For 2015, 85.71 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

**B. Police and Fire Pension Fund**

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, Medicare Part B Premium, and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.5 percent of covered payroll from January 1, 2015 through December 31, 2015. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contribution to OP&F which was allocated to fund postemployment health care benefits for police and firefighters was \$1,493 and \$681 for the year ended December 31, 2015, \$1,506 and \$723 for the year ended December 31, 2014, and \$12,824 and \$4,039 for the year ended December 31, 2013. For 2015, 97.44 and 97.92 percent, respectively has been contributed for police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

**NOTE 13 - OTHER EMPLOYEE BENEFITS**

**A. Deferred Compensation Plans**

City employees and elected officials participate in a statewide deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**B. Employee Insurance Benefits**

The City provides one year's salary in life insurance and accidental death and dismemberment insurance through Sun Life to its full-time employees and part-time employees working a minimum of twenty hours per week.

The City contracts with United Healthcare for hospitalization and prescription insurance for all employees. Monthly premiums for single and family coverage are determined by each individual being insured meeting certain rate criteria. The City pays 90 percent of premiums for elected officials and 90 percent of premiums for all other employees. Premiums are paid from the same funds that pay the employees' salaries.

**C. Compensated Absences**

Vacation leave is earned at varying rates based upon length of service. A maximum number of vacation hours may be accumulated based on length of service. Any unused vacation exceeding the maximum allowance is eliminated from the employee's leave balance. At the time of termination of employment or death, an employee (or his estate) is paid for his unused vacation leave.

Sick leave is earned at the rate of three and eight tenths hours per eighty hours of service and can be accumulated without limit. In the case of death or retirement of an employee who has five years of service, an employee or his estate is paid for one-half of his accumulated sick leave up to a maximum payment equal to thirty days for police and fire personnel, and forty-five days for other city employees.

**NOTE 14 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has addressed these various types of risks by purchasing comprehensive insurance through commercial carriers.



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The types of coverage that the City has with commercial carriers are:

<u>Type of Coverage</u>	<u>Limit</u>	<u>Aggregate Limit</u>
General Liability	\$2,000,000 Per Occurrence	\$4,000,000
Public Officials Liability	2,000,000 Per Occurrence	4,000,000
Auto Liability	2,000,000 Per Occurrence	
Law Enforcement Professional Liability	2,000,000 Per Occurrence	4,000,000
Employee Dishonesty	50,000 Per Occurrence	
Property Damage	26,138,581	

Settled claims have not exceeded their commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from the prior year.

For 2015, the City paid the state workers' compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accidents, history, and administrative costs. The participation in this state mandated insurance fund allows the City to transfer all risk associated with workers compensation.

**NOTE 15 - LONG-TERM OBLIGATIONS**

Changes in the City's long-term obligations during 2015 consist of the following:

	<u>Outstanding</u>			<u>Outstanding</u>	<u>Amounts</u>
	<u>12/31/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/15</u>	<u>Due Within</u>
					<u>One Year</u>
<b><u>Governmental Activities:</u></b>					
Fire Trucks Loan- 2014 - 3%	\$160,000	\$0	\$15,108	\$144,892	\$15,653
Fire Trucks Loan - 2001 - \$221,000 - 3.95%	95,232	0	13,609	81,623	14,152
Police Cruisers Loan - 2013 - \$63,288 - 2.75%	37,466	0	0	37,466	12,646
Jackson County Commissioners CDBG Loan - 2003 - \$50,000 - 0%	10,001	0	3,333	6,668	3,333
Total Loans Payable	<u>302,699</u>	<u>0</u>	<u>32,050</u>	<u>270,649</u>	<u>45,784</u>
Net Pension Liability:					
OPERS	281,366	6,500	0	287,866	0
OP&F	1,005,894	64,048	0	1,069,942	0
Total Net Pension Liability	<u>1,287,260</u>	<u>70,548</u>	<u>0</u>	<u>1,357,808</u>	<u>0</u>
Compensated Absences Payable	<u>88,574</u>	<u>13,173</u>	<u>3,400</u>	<u>98,347</u>	<u>60,289</u>
Total Governmental Activities	<u>\$1,678,533</u>	<u>\$83,721</u>	<u>\$35,450</u>	<u>\$1,726,804</u>	<u>\$106,073</u>

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

	Outstanding 12/31/14	Additions	Reductions	Outstanding 12/31/15	Amounts Due Within One Year
<b><u>Business-Type Activities:</u></b>					
<b><u>General Obligation Bonds</u></b>					
Sewer Farmers Home Administration					
1993 - 5.00%	\$548,000	\$0	\$19,000	\$529,000	\$20,000
<b><u>Revenue Bonds</u></b>					
Sewer Farmers Home Administration					
1993 - 5.00%	1,376,000	0	49,000	1,327,000	51,000
<b><u>OPWC Loans</u></b>					
Water Line Improvements - 1996 - 0.00%	48,750	0	32,500	16,250	16,250
South Water Sludge Basin - 2009 - 0.00%	60,207	0	3,062	57,145	3,762
Green Acres Sewer Line - 2000 - 0.00%	18,192	0	3,032	15,160	3,032
Total OPWC Loans Payable	127,149	0	38,594	88,555	23,044
<b><u>OWDA Loans</u></b>					
Sewer Fund - 1996 - 2.20%	84,743	0	56,182	28,561	28,561
Sewer Fund - 2001 - 2.20%	178,501	0	88,274	90,227	90,227
Water Fund - 2010 - 3.00%	69,471	0	2,724	66,747	2,724
North Water Treatment Plant - 2011 - 0%	359,583	401	13,105	346,879	0
Jenkins Water Tank Replacement - 2011 - 2%	420,077	0	11,590	408,487	11,823
Fresh Water Fund (Phase II) - 2013 - 2.79%	71,394	0	8,935	62,459	0
Total OWDA Loans Payable	1,183,769	401	180,810	1,003,360	133,335
<b><u>Other Loans</u></b>					
Garbage Fund Truck Loan - 2013 - 2.75%	84,669	0	27,577	57,092	0
Total Loans	1,395,587	401	246,981	1,149,007	156,379
Net Pension Liability- OPERS	844,099	19,506	0	863,605	0
Compensated Absences Payable	105,977	16,060	10,318	111,719	57,407
Total Business-Type Activities	\$4,269,663	\$35,967	\$325,299	\$3,980,331	\$284,786

Compensated absences will be paid from the funds from which employees are paid, which include the General Fund, the Fire Levy and the Street Special Revenue Funds, and the Water, Sewer, and Garbage Enterprise Funds.

As of December 31, 2015, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$5,994,124, with an unvoted debt margin of \$3,010,899.

**Governmental Activities:**

The fire truck loan issued in 2001 for \$221,000 matures in 2020 and will be paid from the Sales Tax Special Revenue Fund.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

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In 2003, the City borrowed \$50,000 from the Jackson County Community Development Block Grant Revolving Loan Fund. Proceeds were used for the City's portion of a paving project conducted by the County. Repayment will be from the City's Community Development Block Grant Revolving Loan Special Revenue Fund. The loan will be paid off in 2017.

In 2013, the City borrowed \$63,288 to purchase two police cruisers. The loan matures in 2018 and will be paid from the Sales Tax Fund.

In 2014, the City borrowed \$160,000 to purchase a fire truck. The loan matures in 2024 and will be paid mainly from the Sales Tax Fund.

The annual requirements to retire all governmental loans outstanding as of December 31, 2015, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2016	\$45,784	\$8,560
2017	47,176	7,170
2018	43,757	5,723
2019	33,053	4,237
2020	39,080	3,080
2021-2024	61,799	4,089
	<u>\$270,649</u>	<u>\$32,859</u>

**Business-Type Activities:**

***General Obligation Bonds***

In 1993, the City issued Farmers Home Administration General Obligation Bonds for the Sewer Fund in the amount of \$798,000, for improvements to the City's sewer system. The bonds mature in 2032 and will be repaid through user fees. Principal and interest requirements to retire the City's general obligation bonds outstanding at December 31, 2015, are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2016	\$20,000	\$26,450
2017	21,000	25,450
2018	23,000	24,400
2019	24,000	23,250
2020	25,000	22,050
2021-2025	144,000	90,350
2026-2030	184,000	50,500
2031-2032	88,000	6,650
	<u>\$529,000</u>	<u>\$269,100</u>

***Revenue Bonds***

The City issued \$2,000,000 in Sewer Fund Revenue Bonds in 1993 for improvements to the City's sewer system. The bonds will mature in 2032. Proceeds from these bonds provided financing for a sewer improvement projects.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

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Principal and interest requirements to retire the City's revenue bonds outstanding at December 31, 2015, are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2016	\$51,000	\$66,350
2017	54,000	63,800
2018	57,000	61,100
2019	59,000	58,250
2020	62,000	55,300
2021-2025	362,000	226,650
2026-2030	463,000	126,450
2031-2032	219,000	16,550
	<u>\$1,327,000</u>	<u>\$674,450</u>

***OPWC Loans***

Ohio Public Works Commission (OPWC) loans were obtained in 1992 and 1996 in the amounts of \$79,857 and \$650,000, respectively, for water line improvements and water system renovations. Repayment will be made from user fees. The 1992 loan was paid off in 2012 and the 1996 loan will be paid off in 2016.

An OPWC loan was obtained in 2009 in the amount of \$75,259 for South Water Plant Improvements. Repayment will be made from user fees. The loan will be paid off in 2030.

An OPWC loan was obtained in 2000 in the amount of \$60,640 for the rehabilitation of the Green Acres sewer line. Repayment will be made from user fees. The loan will be paid off in 2020.

Principal requirements to retire the City's OPWC loans outstanding at December 31, 2015 are:

<u>Year</u>	<u>Principal</u>
2016	\$23,044
2017	6,795
2018	6,795
2019	6,795
2020	6,795
2021-2025	18,815
2026-2030	19,516
	<u>\$88,555</u>

***OWDA Loans***

OWDA loans were obtained in 1996 and 2001 in the amounts of \$930,173 and \$1,221,145, respectively, for sewer upgrades. Repayment will be made from user fees and both will be paid off in 2016.

An OWDA loan was obtained in 2010 in the amount of \$81,729 for water system improvements. Repayment will be made from user fees and will be paid off in 2040.

An OWDA loan was obtained in 2011 for upgrades to the North Water Treatment Plant. Repayment will be made from user fees and a loan forgiveness grant. The loan is substantially complete, but an amortization schedule is not yet available.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

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An OWDA loan was obtained in 2011 for replacement of the Jenkins Water Tank. Repayment will be made from user fees and a loan forgiveness grant. The loan is substantially complete.

An OWDA loan was obtained in 2013 for additional upgrades to the North Water Treatment Plant (Fresh Water Phase II). Repayment will be from user fees. The loan has not been fully drawn, and an amortization schedule is not available.

Principal and interest requirements to retire the City's enterprise OWDA loans outstanding at December 31, 2015, are as follows:

Year	Principal	Interest
2016	\$133,335	\$9,911
2017	14,784	7,874
2018	15,027	7,631
2019	15,274	7,384
2020	15,526	7,132
2021-2025	81,596	31,743
2026-2030	88,710	24,589
2031-2035	96,565	16,724
2036-2040	103,890	8,047
2041-2042	29,315	588
Total	<u>\$594,022</u>	<u>\$121,623</u>

***Other Loans***

In 2013, the City borrowed \$138,850 for the purchase of a garbage truck. Repayment will be made from user fees. The loan will be paid off in 2018.

Year	Principal	Interest
2017	\$28,513	\$1,590
2018	28,579	806
Total	<u>\$57,092</u>	<u>\$2,396</u>

***Pledged Revenues***

The City has pledged future customer water revenues, net of specified operating expenses, to repay \$1,113,654 in Ohio Water Development Authority loans issued in 1995, \$81,729 issued in 2010, and for both loans issued in 2011. The loans are payable solely from customer net revenues. The final loan payment will be in 2042. Net revenues include all revenues received by the water utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the loans are expected to require 41 percent of net revenues. The total principal and interest remaining to be paid on the loans is \$595,057. Principal and interest payments for the current year were \$49,023, net revenues were \$55,149 and total revenues were \$1,749,639.

The City has pledged future customer sewer revenues, net of specified operating expenses, to repay \$2,000,000 in revenue bonds issued in 1993, as well as a \$930,173 Ohio Water Development Authority loan issued in 1996 and a \$1,221,145 Ohio Water Development Authority loan issued in 2001. The bonds and loans are payable solely from customer net revenues and are payable through 2032. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

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Annual principal and interest payments on the bonds and loan are expected to require 43 percent of net revenues. The total principal and interest remaining to be paid on the bonds and loan is \$2,122,037. Principal and interest payments for the current year were \$267,207, net revenues were \$555,177 and total revenues were \$1,186,481.

**NOTE 16 - INTERFUND BALANCES AND TRANSFERS**

**A. Balances**

Interfund Receivable and Interfund Payable balances at December 31, 2015, consisted of an interfund receivable to the General Fund and an interfund payable from the Recreation Special Revenue Fund. The advance from the General Fund to the Recreation Special Revenue Fund is due to timing differences with a reimbursement-basis grant. This advance will all be repaid in 2016.

**B. Transfers**

The General Fund made transfers to the Cemetery Special Revenue Fund in the amount of \$119,550. This transfer was used to move unrestricted revenue collected in the General Fund to finance these programs in accordance with budgetary authorizations. The transfer was made in compliance with Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16.

**NOTE 17 - CONTINGENT LIABILITIES**

**A. Litigation**

The City is currently party to legal proceedings. The City has determined that any potential liability will not have a material effect on the financial statements.

**B. Federal and State Grants**

For the period January 1, 2015, to December 31, 2015, the City received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

**NOTE 18 - FISCAL EMERGENCY DECLARATION**

The Auditor of State's office placed the City in fiscal emergency on October 1, 2009, in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a financial planning and supervision commission. The Commission is comprised of a representative of the Office of Budget and Management, a representative of the Treasurer of State, the City Mayor, the President of City Council, and three individuals appointed by the Governor who are residents of the City and meet certain criteria.

In accordance with Section 118.06 of the Ohio Revised Code, the City is required to submit to the Commission a financial recovery plan for the City which outlines the measures to be taken to eliminate the fiscal emergency conditions. The City adopted its initial financial recovery plan on March 19, 2010.

**City of Wellston, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2015*

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**NOTE 19 - SIGNIFICANT COMMITMENTS**

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to ensure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General Fund	\$7,115
Fire Fund	57,758
Recreation Fund	233,364
Non-Major Governmental Funds	59,834
Water Fund	102,498
Sewer Fund	47,075
Garbage Fund	12,503
	<u>\$520,147</u>

**City of Wellston, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the Net Pension Liability*  
*Ohio Public Employees Retirement System - Traditional Plan*  
*Last Two Years (1)*

	2014	2013
City's Proportion of the Net Pension Liability	0.0095470%	0.0095470%
City's Proportionate Share of the Net Pension Liability	\$1,151,471	\$1,125,465
City's Covered-Employee Payroll	\$1,170,417	\$857,338
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	98.38%	131.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

(1) Information prior to 2013 is not available.

Amounts presented as of the City's measurement date which is the prior fiscal year end.



**City of Wellston, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the Net Pension Liability*  
*Ohio Police and Fire Pension Fund*  
*Last Two Years (1)*

	2014	2013
City's Proportion of the Net Pension Liability	0.0206536%	0.0206536%
City's Proportionate Share of the Net Pension Liability	\$1,069,942	\$1,005,894
City's Covered-Employee Payroll	\$422,474	\$336,540
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	253.26%	298.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%

(1) Information prior to 2013 is not available.

Amounts presented as of the City's measurement date which is the prior fiscal year end.

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**City of Wellston, Ohio**  
*Required Supplementary Information*  
*Schedule of City Contributions*  
*Ohio Public Employees Retirement System - Traditional Plan*  
*Last Three Years (1)*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$125,029	\$140,450	\$111,454
Contributions in Relation to the Contractually Required Contribution	<u>(125,029)</u>	<u>(140,450)</u>	<u>(111,454)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$1,041,907	\$1,170,417	\$857,338
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

**City of Wellston, Ohio**  
*Required Supplementary Information*  
*Schedule of City Contributions*  
*Ohio Police and Fire Pension Fund*  
*Last Ten Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$89,864	\$86,434	\$57,125	\$45,743
Contributions in Relation to the Contractually Required Contribution	<u>(89,864)</u>	<u>(86,434)</u>	<u>(57,125)</u>	<u>(45,743)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$440,284	\$422,474	\$336,540	\$331,364
Contributions as a Percentage of Covered-Employee Payroll:	20.41%	20.46%	16.97%	13.80%

2011	2010	2009	2008	2007	2006
\$67,911	\$74,739	\$82,759	\$81,666	\$77,766	\$67,604
(67,911)	(74,739)	(82,759)	(81,666)	(77,766)	(67,604)
\$0	\$0	\$0	\$0	\$0	\$0
\$487,473	\$527,508	\$605,295	\$593,191	\$566,930	\$527,088
13.93%	14.17%	13.67%	13.77%	13.72%	12.83%

**Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards***

City of Wellston  
Jackson County  
20 East Broadway  
Wellston, Ohio 45692

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellston, Jackson County, Ohio (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 23, 2016.

**Internal Control over Financial Reporting**

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not be prevent or detect and timely correct a material misstatements of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weakness or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Members of Council  
City of Wellston, Jackson County  
Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters Required by  
Government Auditing Standards

**Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

**Purpose of this Report**

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*J. L. Uhrig and Associates, Inc.*

J. L. UHRIG AND ASSOCIATES, INC.  
Chillicothe, Ohio

August 23, 2016

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# Dave Yost • Auditor of State

CITY OF WELLSTON

JACKSON COUNTY

## CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
NOVEMBER 10, 2016